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Central Intelligence Agency

Washington, D.C. 20505

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DIRECTORATE OF INTELLIGENCE

5 October 1984

ISRAEL: Alternative Economic Policies [redacted]

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Summary

Using the CIA econometric model of Israel, we ran one scenario to measure the impact on Israel's economic performance of policies designed to improve the financial gap. Domestic demand would have to be constrained to such a low level that economic growth would decline. [redacted]

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Scenario 10. In this scenario, we targeted $5 billion as the level for the financial gap for 1987. To achieve this goal, private and domestic government consumption decline by large amounts in 1985--10 percent and 9 percent, respectively--but the decline tapers off in 1986 and 1987. Investment is assumed to decline no more than it does in the baseline; otherwise it would reach unrealistically low levels. GNP declines an average of 2.8 percent a year and the unemployment rate increases to 13.2 percent in 1987. [redacted]

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This memorandum was prepared by [redacted] the Israel/Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. It was requested by Russell Misheloff, Deputy Director, Office of Middle East and European Affairs, AID, as a follow-up to a memorandum dated 17 September 1984 (NESA M#84-10265). Information as of 5 October 1984 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division [redacted]

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NESA M#84-10276

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SCENARIO 10: FINANCIAL GAP REACHES $5 BILLION IN 87; LARGE INITIAL DECLINE IN PRIV AND DOM GOVT SPENDING
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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	106.68	103.59	101.34
PERCENT CHANGE	1.34	2.42	-3.31	-2.89	-2.18
GNP DEFLATOR	12.62	53.28	270.65	1902.45	18706.39
PERCENT CHANGE	150.10	322.13	407.99	602.93	883.28
CAPACITY UTILIZATION RATE	90.88	92.47	88.92	85.95	83.85
UNEMPLOYMENT RATE	4.49	5.96	7.72	10.35	13.15
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.34	83.80	75.01	70.87	67.91
PERCENT CHANGE	7.05	4.30	-10.49	-5.51	-4.19
TOTAL INVESTMENT	27.36	26.60	25.68	24.29	22.37
PERCENT CHANGE	5.92	-2.79	-3.48	-5.39	-7.93
GOVERNMENT CONSUMPTION	35.38	39.77	37.02	38.42	38.43
PERCENT CHANGE	-4.24	12.39	-6.92	3.80	0.03
EXPORTS	51.38	54.12	56.30	57.53	59.86
PERCENT CHANGE	2.24	5.32	4.04	2.18	4.05
IMPORTS	80.98	88.51	81.70	81.49	81.06
PERCENT CHANGE	5.65	9.30	-7.69	-0.25	-0.52
NET FACTOR IMPORTS	5.76	5.44	5.62	6.03	6.16

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.73	12.41	13.72
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.70	1.94
IMPORTS	13.96	15.22	14.91	15.22	16.19
OF WHICH: FUELS	1.61	1.63	1.60	1.57	1.62
DIAMONDS	0.85	0.98	1.12	1.21	1.38
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-3.18	-2.82	-2.48
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-5.41	-5.19	-5.04
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	0.83	1.60	2.32

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ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.34	83.80	75.01	70.87	67.91
PERCENT CHANGE	7.05	4.30	-10.49	-5.51	-4.19
TOTAL INVESTMENT	27.36	26.60	25.68	24.29	22.37
PERCENT CHANGE	5.92	-2.79	-3.48	-5.39	-7.93
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	13.07	11.72	9.92
PERCENT CHANGE	21.78	-6.88	-3.71	-10.36	-15.38
PRIVATE RESIDENTIAL	6.98	6.40	6.35	6.55	6.60
PERCENT CHANGE	-4.56	-8.30	-0.80	3.06	0.79
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	37.02	38.42	38.43
PERCENT CHANGE	-4.24	12.39	-6.92	3.80	0.03
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	12.03	11.43	11.09
PERCENT CHANGE	0.78	3.00	-9.00	-5.00	-3.00
TOTAL MILITARY	22.56	26.54	24.98	26.99	27.35
PERCENT CHANGE	-6.75	17.64	-5.88	8.03	1.32
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	16.26	15.45	14.98
PERCENT CHANGE	6.94	3.00	-9.00	-5.00	-3.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00
COMPONENTS OF FOREIGN TRADE SECTOR					
EXPORTS	51.38	54.12	56.30	57.53	59.86
PERCENT CHANGE	2.24	5.32	4.04	2.18	4.05
IMPORTS	80.98	88.51	81.70	81.49	81.06
PERCENT CHANGE	5.65	9.30	-7.69	-0.25	-0.52
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	60.22	58.18	57.29
PERCENT CHANGE	8.62	6.07	-8.46	-3.39	-1.53
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	13.34	12.88	12.68
PERCENT CHANGE	15.80	6.11	-8.46	-3.45	-1.55
NET FACTOR IMPORTS	5.76	5.44	5.62	6.03	6.16
PERCENT CHANGE	12.23	-5.59	3.30	7.22	2.23

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
				(BILLIONS OF 1980 SHEKELS)	
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	12.03	11.43	11.09
PERCENT CHANGE	0.78	3.00	-9.00	-5.00	-3.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	16.26	15.45	14.98
PERCENT CHANGE	6.94	3.00	-9.00	-5.00	-3.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
				(BILLIONS OF 1980 SHEKELS)	
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE		0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE		-21.89	-50.00	-50.00	-200.00
PUBLIC SECTOR WAGES	22.24	23.13	20.82	19.36	18.01
PERCENT CHANGE		4.00	-10.00	-7.00	-7.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.70	6.48	6.29	6.16
PERCENT CHANGE		2.42	-3.31	-2.89	-2.18
					(PERCENT)
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.11	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13
				(PERCENT CHANGE)	
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	1106.86	7461.13	68455.31
				(BILLIONS OF US DOLLARS)	
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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